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THE PERCEPTION OF PUBLIC CONFIDENCE IN FINANCIAL REPORTING: A HALF CENTURY DOWN THE DRAIN?

By

Paul Garner, University of Alabama

The query in the title of this little piece is occasioned by a coincidence which occurred to me some weeks ago, when three items appeared in prominent business and financial publications, namely *The Wall Street Journal*, *Business Week* magazine, and the *Financial Analysts Journal*.

The Wall Street Journal for June 1, 1979, page 14, has the headline "Public is Losing Confidence in Accuracy of Corporate Reports, SEC Chief Warns". In the article, Chairman Harold Williams of the Securities and Exchange Commission warned that public confidence in the accuracy of corporate financial reports is deteriorating rapidly. He further charged that "there is an enormous and growing perception and credibility gap between financial reporting and economic reality", and he urged that accountants reduce the gap.

A few days later, in the June 4, 1979 issue of *Business Week* (pages 114-115) in connection with a review of an analysis made by Professor Lee Seidler, in his regularly issued publication prepared for Bear, Stearns, and Company, called "Accounting Issues", Professor Seidler suggested that a prominent company, the SCM Corporation, used "creative accounting" in its annual report for 1978, as compared with the 1977 fiscal year. The *Business Week* writer said that "despite all the talk of self-policing on the part of the accounting establishment, accounting techniques can still be applied with a great deal of artistry and selectivity. It all depends on whether a company wants to teach or titillate investors." Professor Seidler, in his detailed tabular presentation, suggested that the reported earnings per share for fiscal year 1977 of \$3.70, versus fiscal year 1978, of \$3.75, could possibly have been "adjusted" to \$4.46 for 1977 fiscal year, versus \$2 for fiscal 1978, per share. After a couple of weeks or so, the Letters to the Editor Department of *Business Week* for July 2, contained a letter from the Vice President for Finance of the SCM Corporation, taking issue with Professor Seid-

ler and the reporter of *Business Week* magazine, with "your readers deserve more informed reporting. Had you studied our annual report, and not merely another's account of it, I am sure that you would agree it fully discloses all material facts about our fiscal year reports."

The third item (Contemporary) selected is found in the *Financial Analysts Journal* (March-April 1979) beginning on page 72, under the title of "The FASB—Eliminator of Managed Earnings?" by Professors Dean Graber and Bill Jarnagin. The article starts with "Over the years, accountants have been criticized for their ability to massage the numbers. Critics contend that managed earnings are a product of accountants' leeway to choose among a multitude of accounting alternatives when preparing financial statements." They quote Professor John C. Burton, former chief accountant of the Securities and Exchange Commission, "The way you keep the score determines at least in part the way you play the game."

The coincidence referred to in the first paragraph above arises because of the fact that about the time I was reading the above three items in publications with millions of readers, I was presented with a slender volume published nearly a half a century ago (1930) by Alexander Hamilton Institute entitled "Investment and Speculation". The author was Mr. M. S. Rukeyser, who was commented on in the Preface by the publisher's editor-in-chief, the well-known Joseph French Johnson. Mr. Rukeyser was a prominent reporter and special writer of finance business for a number of widely read publications of that era, including the *New York Tribune*, the *Financial Department of Vanity Fair*, the *New York American*, and the *New York Evening Journal*, plus being the author of scores of other works. In addition, Mr. Rukeyser "has studied and advised 30 thousand or more individuals on their financial plans and prob-

(Continued on Page 8)

LETTER FROM THE OUTGOING PRESIDENT

Dear Fellow Members of the Academy
of Accounting Historians:

At the end of my two year term as President, I would like to make a few observations on the past two years of the Academy.

It was a particular privilege and pleasure for me to serve in this office for the calendar years 1978 and 1979. During this time, I found a level of cooperation and willingness to work for the Academy on the part of all members; this goes much beyond the experiences I had in other organizations. This suggests to me that—although the Academy of Accounting Historians is still a very young organization—it is very strong and viable in spite of (or because of) its small size. It certainly will make an impact on the academic groups interested in our work in the future. We certainly do not need any longer to worry about its continued existence.

I regarded it as my immediate task to strengthen some aspects of our work. For this purpose, a number of committees have been reappointed by me and are working to produce materials which shall be made available to all members of the Academy. Promising results seem to emerge in the area of research, taxonomy, and archives work. These efforts should be continued in the future.

An area which deserves some additional attention in the future is participation in regional meetings. We did succeed, thanks to the help of our regional chairmen, to put on a number of meetings. However, these meetings need stronger support in the future. I, therefore, would like to request at this time for all members of the Academy to make a serious attempt to attend regional technical sessions on matters of accounting history.

The membership response to the announcement of the Third World Congress of Accounting Historians in London has been overwhelming. From the United States, the largest number of papers submitted (or promised to be submitted), this suggests that quite a few members will not only submit papers but also will take the opportunity to attend the London meeting. The Academy, therefore, has scheduled next year's Charles Waldo Haskins Seminar in Accounting History jointly with the World Congress. This will give us an additional opportunity to bring together American scholars with interested colleagues from other countries. I hope this will be a success.

You can read about other matters such as our monograph, the *Historian's Journal* and other items in the short report about the Hawaii business meeting. Therefore, I need not comment further on those.

Finally, I would like to congratulate all new officers to their election and personally look forward to work with them; their efforts will further strengthen the Academy. May I also ask all members at this time to give the new officers the same support you have given to me and my fellow officers during the last two years. This will make future work, without any doubt, successful.

It was a pleasure to work with you and I'd like to thank every member.

Sincerely,

Hanns-Martin W. Schoenfeld



... Through the Ages

We have been informed of the death of Percival Flack Brundage. Graduating cum laude from Harvard University in 1914, Brundage subsequently went to work for the firm of Price Waterhouse & Co. rising to partner in 1930 and senior partner in 1944. In 1956 he became the first CPA to hold the position of Director of the Bureau of the Budget. Brundage served as president of the AICPA in 1948-49. He was selected for The Accounting Hall of Fame in 1955.

The Accounting Historians Notebook

The Academy of Accounting Historians

Box 658

Georgia State University

University Plaza

Atlanta, Georgia 30303

Editor: Hans V. Johnson

The University of Texas at San Antonio

Associate Editor: Gadis J. Dillon

The University of Georgia

THIRD INTERNATIONAL CONGRESS OF ACCOUNTING HISTORIANS

London 1980

When?

15 August 1980 Registration (2:00 p.m.-10:00 p.m.)
16 August First session (9:15 a.m.)
 Haskins Seminar
 Congress Dinner
17 August Congress continues
18 August Last session ends 10:30 a.m. Followed by visit to Chartered
 Accountants Hall and Centenary Exhibition.
 Congress ends 2:00 p.m.

Where?

London Graduate School of Business Studies

Sussex Place
Regent's Park
LONDON NW1 4SA
(telephone 01-262 5050 telex 27461)
Nearest underground station: Baker Street

Up to 120 participants can be accommodated, in single rooms only, at the School. Families are advised to make their own hotel reservations. Two convenient hotels are:

The Westmoreland Hotel at Lord's
Lodge Road
St. John's Wood
LONDON NW8 7JT

The White House Hotel
Regent's Park
LONDON NW1 3 UP

Telephone: 01-387 1200

Telephone: 01-722 7722

How Much?

Congress Registration Fee	£25
Accommodation (including meals except Congress Dinner) at London Business School (unaccompanied participants only)	£98
Congress Dinner	£11

Fees are payable in sterling.

Cheques should be made out to The Third International Congress of Accounting Historians, 1980.

Registration forms are available from:

Dr. G. A. Lee
Department of Industrial Economics
The University of Nottingham
University Park
NOTTINGHAM NG7 2RD
England

All queries about papers should be addressed to:

Professor R. H. Parker
Department of Economics
Amory Building
Rennes Drive
EXETER EX4 4RJ
Devon
England

ARTICLES

"Annual Reports in the United States: A Historical Perspective" by Allen Schiff, *Accounting and Business Research*, No. 32, Autumn 1978, p. 279.

"Auditing the Government of Canada: A Centennial Conspectus" by J. J. McDonnell, *Canadian Chartered Accountant*, Vol. III, No. 12, p. 22.

"Bahian Merchants and Planters in the 17th and Early 18th Centuries" by R. Flory and D. G. Smith, *The Hispanic American Historical Review*, Vol. 58, No. 4, November 1978, p. 571.

"Compound Journal Entries in Early Treatises on Bookkeeping" by Basil S. Yamey, *The Accounting Review*, Vol. 54, No. 2, April 1979, p. 323.

"The Evolution of Municipal Accounting in The United States: 1900-1935" by James H. Potts, *The Business History Review*, Vol. 52, No. 4, Winter 1978, p. 518.

"Governmental Accounting in Colonial Massachusetts" by William Holmes, *The Accounting Review*, Vol. 54, No. 1, January 1979, p. 47.

"Management Accounting in an Early Multidivisional Organization: General Motors in the 1920's" by H. Thomas Johnson, *The Business History Review*, Vol. 52, No. 4, Winter 1978, p. 490.

"The Role of Negative Numbers in the Development of Double Entry Bookkeeping" by Richard M. Peters and Douglas R. Emery, *The Journal of Accounting Research*, Vol. 16, No. 2, Autumn 1978, p. 424.

BOOKS

Documents in English Economic History: England from 1000 to 1760 H. E. S. Fisher and A. R. J. Jurica, editors, London: G. Bell & Sons, 1977

Reviewed in: *The Economic History Review*, Vol. 32, No. 1, February 1979, p. 119.

Documents in English Economic History: England since 1760 B. W. Clapp, editor, London: G. Bell & Sons, 1976.

Reviewed in: *The Economic History Review*, Vol. 32, No. 1, February 1979, p. 119.

Finance and Enterprise in Early America: A Study of Stephen Girard's Bank 1812-1831 by Donald R. Adams, Jr., Philadelphia: University of Pennsylvania Press, 1978.

Reviewed in: *Business History Review*, Vol. 53, No. 1, Spring 1979, p. 135.

The GAO: The Quest for Accountability in American Government by Frederick C. Mosher, Westview, forthcoming.

A History of Accounting in America: An Historical Interpretation of the Cultural Significance of Accounting by Gary J. Previts and Barbara D. Marino, Ronald, 1979.

History of the Accounting Profession in the Virgin Islands, Virgin Islands Society of Certified Public Accountants, 1976.

History of Certified Public Accountants in Mississippi 1904-1977 by James W. Davis, Jackson, Mississippi: Mississippi Society of Certified Public Accountants, 1977.

A History of the Issues and Problems Surrounding Goodwill in Accounting by Hugh P. Hughes, Research Monograph: No. 80, Georgia State University Business Publication, forthcoming.

Recent Developments in the Study of Economic and Business History: Essays in Memory of Herman E. Krooss Robert E. Gallman, editor, Greenwich, Connecticut: JAI Press, 1977.

Reviewed in: *The Business History Review*, Vol. 52, No. 4, Winter 1978, p. 572.

Schmalenbach and After, a Study of the Evolution of German Business Economics by David A. R. Forrester, Glasgow: Strathclyde Convergencies, 1978.

Reviewed in: *The Accounting Review*, Vol. 54, No. 2, April 1979, p. 453.

A Selection from the Records of Philip Foley's Stour Valley Iron Works 1668-74 Part I R. G. Schafer, editor, Worcester: Worcestershire Historical Society Publications, New Series, Volume 9, 1978.

Reviewed in: *The Journal of Economic History*, Vol. 39, No. 2, June 1979, p. 510.

CORRECTION:

In the last issue, we failed to include Joel Demski and Nicholas Dopuch as co-editors of *Essays in Honor of William A. Paton, Pioneer Accounting Theorist*.

As you find interesting examples of Accounting History in Print, please share with your colleagues by sending the reference to:

Dr. Gadis Dillon
School of Accounting
University of Georgia
Athens, Georgia 30602

The Annual Business Meeting of the Academy of Accounting Historians was held on August 22nd in Honolulu, Hawaii, in conjunction with the American Accounting Association. Participants included members from all regions of the U.S. and a number of other countries. In his introductory remarks, President Hanns-Martin Schoenfeld noted that current membership stands at 379, of which 287 are from the U.S. and 92 from other countries. Subscriptions for the *Accounting Historians Journal* total 512, which includes 133 subscribers who are not presently members of the Academy. President Schoenfeld also noted that the Fourth Charles Waldo Haskins Seminar will be held in conjunction with the Third International Congress of Accounting Historians meeting, London, August 16-18, 1980. Reports from London indicate that 48 persons have committed themselves to presenting papers, 17 of them from the U.S., 11 from the U.K., and the remainder from other countries. Eric Castle, from the U.K., pointed out at the meeting that 1980 will be the centenary year of the Institute of Chartered Accountants in England and Wales. President Schoenfeld stated that the 5th and 6th Haskins Seminars are planned to be held, one of them at a meeting with the Business History Conference at the University of Illinois and the other in the Northwest U.S., the respective places yet to be identified.

Treasurer Krzystofik distributed a set of financial statements and added comments related to various fund accounts and activities. Edward Coffman discussed the availability of the 2nd bound volume of *Working Papers*, which is now in press. Regional Chairpersons present at the meeting (Diana Flamholtz-Western, Ken Elvik-Midwestern, Horace Givens-Mid Atlantic, Richard Brief-Northeastern) gave reports on regional meetings during the past year. Gyan Chandra and Dale Flesher gave a report for the Membership Committee. Diana Flamholtz reported activities of the Research Committee, Richard Vangermeersch discussed progress by the Archives Committee and distributed a report including availability of historical materials available at certain locations.

In the absence of Williard Stone, Gary Previts gave the editorial report. He reported that from August 1, 1978 to July 31, 1979, 32 manuscripts were submitted to *The Accounting Historians Journal*. Of these, 3 were accepted, 11 were rejected, 13 were returned with suggestions for re-

vision, and 5 were still in process of review. Total manuscripts in the revision stage: 17 (13 included above and 4 from previous years). Of these 17, 10 have now been accepted, 1 rejected, and 6 remain in process. Gary also discussed the growing number of items now being published by the Academy. Dale Buckmaster was identified as the new Book Review Editor of *The Journal*, replacing Ken Elvik, as of Volume 7.

President Schoenfeld announced the winner of the Hourglass Award as Murray C. Wells for his *Accounting for Common Costs* and *A Bibliography of Cost Accounting-Its Origins and Development to 1914*, both published as Monograph No. 10 by the Center for International Education and Research in Accounting. In the absence of Wells, the Award was accepted by Robert Gibson of Deakin University. Following the presentation, new officers for 1980 were elected.

President: Richard P. Brief, New York University

Vice-President: H. Thomas Johnson, Western Washington University — Kenneth O. Elvik, Iowa State University

Treasurer: Richard Vangermeersch, University of Rhode Island

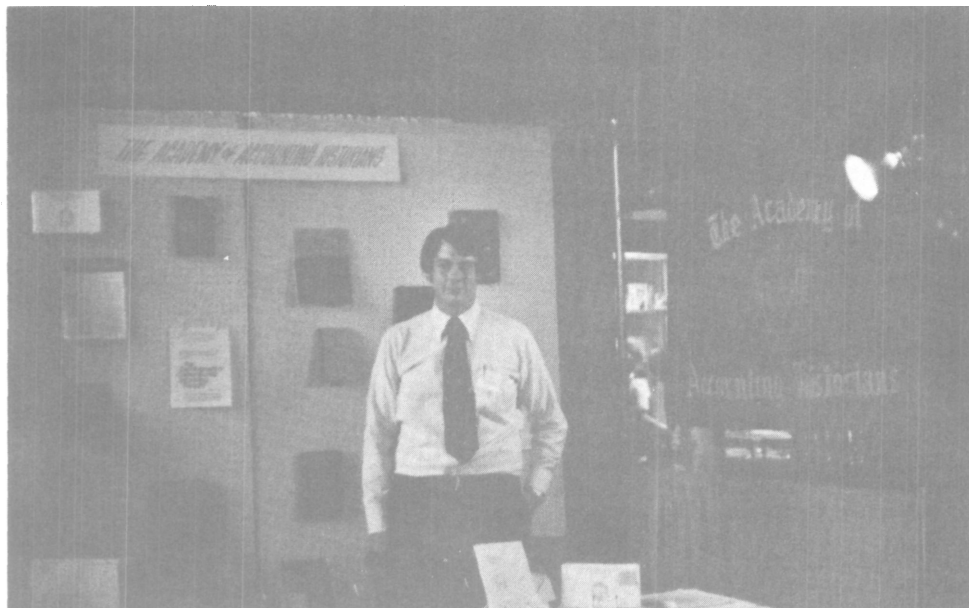
Richard Vangermeersch will take over the Treasurer's post immediately to replace Anthony Krzystofik, who is taking leave of absence from his teaching post. Alfred R. Roberts will continue as Secretary. New trustees include Hans V. Johnson, Horace Givens, Felix Pomeranz, Anthony Krzystofik, Hanns-Martin Schoenfeld, and Vernon K. Zimmerman, who was re-elected to another 3 year term.

President Schoenfeld thanked H. Thomas Johnson for organizing this year's technical sessions, which were well attended. Also of considerable interest was selection of Maurice Moonitz to The Accounting Hall of Fame and Academy trustee George Sorter's selection as the American Accounting Association's Outstanding Educator.

Kenneth O. Elvik

... Through the Ages

Academy members were saddened to hear of the untimely death of William Holmes on May 12, 1979. An audit manager with Peat Marwick Mitchell & Co. in Boston, Holmes was a charter member of the Academy and a frequent contributor to the literature on accounting history.



The Pete McMickle Show

Pete has been touring the convention circuit in recent years to spread the "word" for the Academy.

From the June 1979 issue of *Explorations*, Al Roberts contributes the following quotations of Harvard Business School researchers which are of interest:

Carefully designed retrospective studies have great potential, according to Professor Paul Lawrence, not only for exploratory, or model-building, research but also for rigorous testing of models for association and causation. In brief, retrospective research "is increasingly emerging as too useful a method to leave entirely to those whose final degree happens to be in history."

Among the personal concerns of managers is the desire to build for the next generation. Professor Jay Lorsch attaches great importance to managers' perceptions of the history of their firms. "Company culture" is a powerful force in making strategic decisions.

The New York CPA Examination 1906

Theory of Accounts

Explain the purpose and the manner of keeping a private ledger as part of the financial books of a firm or a corporation.

Auditing

How would you determine the profits for a given period from a set of books kept on the single entry system, the capital at the beginning of the period being known?

Commercial Law

A, meeting B on the street tells him to send to his hotel 15 barrels of a certain brand of flour that B is selling at \$5 a barrel. The men separate without further talk and the next day the flour is sent to A. Is he obliged to take it? Give reasons.

1980 BUSINESS HISTORY CONFERENCE

**Lehigh University
Bethlehem, Pennsylvania
March 6-8, 1980**

For information write:

**Professor Fred Bateman
Department of History
Purdue University
West Lafayette,
Indiana 47906**

**A section will be held for
recent dissertations on history.**

ACCOUNTING HISTORY QUIZ

Name the famous accountants who made the following remarks.

(1) *Accounting principles need not and should not be codified. To introduce such rigidity is to diminish the great service which accountants can and do perform in the interpretation of freely transacted business. There is no reason to believe that accounting and accounting statements should be so simplified as to be readily understandable by one and all. A reasonable man does not expect all persons to understand the intricate details of the practice of medicine without being trained therein. It is equally illogical to expect everyone to fully understand all about accounting. This interpretive function is best left to the accountant.*

The demand for uniformity and standardization in accounting systems arises from a distrust of business management. Uniformity and standardization will gain little "since management controls the form which transactions take." Accountants are challenged "to accept their interpretive function and show integrity, courage, and resourcefulness in discharging this function."

(2) *Present-day income statements can also be improved in many ways. The showing of gross profit should be eliminated, since there is no need for an intermediate figure before the all-important net operating income figure. Interest is a distribution of earnings, not an expense. Depreciation, a perfectly valid operating expense, should be included in operating expenses. Purchase discounts are not income, but adjustments of nominal cost. A combined statement of income and surplus should be presented, in view of the tendency to charge many items to surplus. Current dividends should be shown in the income statement as a charge against current earnings.*

Accountants should make greater use of cumulative reports, statistical devices such as index numbers and funds statements. Accountants could also prepare a balance sheet in two segments — first, the current account data which would take the liquidation point of view, and secondly, the capital account section which would take the going-concern point of view.

(3) *The present period of rising price levels has produced a lot of mumbo-jumbo and misconceptions with respect*

to depreciation, depreciation reserves and profit levels. A number of devices have been used in attempts to find the "solution" to high prices, such as the immediate absorption of all or a part of the cost of new assets, increasing the depreciation rates, reversing accrued depreciation and various write-up methods, including that of the quasi-reorganization.

Another fallacy encountered is the belief that increasing depreciation charges will increase working capital. Those who persist in the cry of "unreality" with respect to business profits should recognize that "men's minds as well as prices are infected by inflationary movements." There is also the worshipping cult which asserts that accountants should use index numbers in valuing fixed assets, but which fails to recognize that a proper application of index numbers to the conditions attaching to a particular business will probably justify continuation of recording assets at cost and the taking of depreciation on the cost basis.

(4) *The significant antecedents of double-entry bookkeeping are (1) the art of writing, (2) arithmetic, (3) private property, (4) money, (5) credit, (6) commerce, and (7) capital. Although most of these antecedents existed to a certain extent in Roman and Greek cultures, double-entry bookkeeping needed something more to foster its development. "The ancient world did not produce bookkeeping [because] it did not have the conception of productive business capital." Capital did exist in the sense of wealth, but wealth alone does not create capital in the modern sense of the word.*

Mail your answers to Notebook, Box 658, University Plaza, Atlanta, Georgia 30303. Professor Gary John Previts has graciously offered to entertain the winner to a delightful "night on the town" in Cleveland, Ohio . . . sometime in latter January . . . assuming the winner can pay his own way there.



CALL FOR PAPERS ON ACCOUNTING HISTORY

Persons wishing to present papers on the subject of Accounting History at the annual meeting to be held in Boston, Massachusetts, August 10-13, 1980, are requested to submit two copies of each of the following:

1. an outline of their research (maximum 5 pages)
2. a 100 word abstract
3. a current resume

This material, inquiries and other correspondence should be addressed to:

Professor H. Thomas Johnson
Department of Accounting
Western Washington University
Bellingham, WA 98225
Phone: (206) 676-3202

To meet deadlines it is essential that proposals be received no later than January 15, 1980.

NOTABLE CONTRIBUTIONS TO ACCOUNTING LITERATURE AWARD

Members of the American Accounting Association are invited to suggest works for nomination for the AICPA Notable Contributions to Accounting Literature Award. These nominations are restricted to articles published in either regular or irregular periodicals during the calendar year ending December 31, 1979 and books or irregular publications published during the five year calendar years then ending.

The latest date for receiving nominations is February 15, 1980. Please address your suggestions to: Dr. D. Larry Crumbley, AAA Committee to Nominate Outstanding Contributions to Accounting Literature, Department of Accounting, Texas A&M University, College Station, Texas 77843.



HELP

The Editor asks your assistance in providing information on accounting history meetings or other noteworthy items. Please send them along to: Notebook, Box 658, University Plaza, Atlanta, Georgia 30303.

YOUR

Chance of Success—

"There will, of course, be the exceptional man who will come up through that routine training and dominate his field by the force of his intellect, but in the main the new conditions of affairs demand a superior training such as only the schools can give."

Without Education —

1 Chance in 150,000

Elementary Education —

4 Chances in 150,000

High School Education —

87 Chances in 150,000

College Education —

800 Chances in 150,000

From: *Washington (D.C.) School of
Accountancy
1922-23 Catalog
Contributed by G. H. Newlove*

Accounting historians will enjoy William Faulkner's use of the "ledger" (more appropriately, a daybook) in *The Bear*. Faulkner expands the use of an accounting record to include, biography, conversation, debate, employee evaluation and family lineage.

A. McKelly Lynch
University of North Alabama

GARNER (continued)

lems." He lectured widely throughout the country, and spoke on the radio networks regularly. These activities are mentioned in order to indicate that he probably was a keen lay observer of the accounting and investment scene in the years immediately before the great depression, and at its beginning when the little book of 350 pages was written. He was not an accountant by profession, having studied literature, journalism, and economics at Columbia University.

In view of the fact that financial and business reporters for general readers can still make the headlines, as indicated in the three examples above, in 1979, it is a bit of curiosity that a prominent writer of a half century ago can also be quoted along substantially the same lines, even though it is natural that the phraseology may be a bit different. Therefore, after going through the 350 pages carefully, and noting all of the comments and con-

(Continued on next page)

GARNER (continued) accounting historians notebook, has built for his family is merely a house of cards." clusions on public confidence in accounting and financial reporting in the early days of the great depression, one may be permitted some doubt as to how much "progress" has been accomplished in the preceding five decades.

However, in order for the reader to draw his or her own comparisons and conclusions, I am presenting the gist of some quotations from the book written in the early part of 1930. It will be recalled that the corporate investment community had been in a turmoil for the preceding four or five months, and Mr. Rukeyser makes reference to the traumas of September and October 1929; but curiously, in view of the later more tragic collapse and discouragement, Mr. Rukeyser thought that the developments in the fall of 1929 were only temporary in their significance to the country. Actually, he made little reference to the remote possibility of the calamity which of course struck the world in the next three years.

The first chapter of the book is titled "Spending Versus Saving" and a considerable number of the paragraphs could well be quoted from current literature and articles by popular writers. For example, "the proprietor of the business should distinguish between saving for his business and for his own personal thrift. Once a business pays out profits, it has lost control over them. As long as profits are retained, however, the management of the business retains options affecting the ultimate disposition of the funds." Business people who now visit their friendly banker are still told that "banks are eager to lend to concerns whose finances have been prudently husbanded, but are reluctant, or unwilling, to lend to those that have intemperately dissipated profits."

In his work with the 30 thousand individuals, Mr. Rukeyser became a keen observer of the American people in regard to spending versus saving: "A large proportion of American families, whose objective is keeping up with the Joneses, not only spend 100% of their income, but actually exceed their income by indulging in their futile whims. Psychologically, the objection of such careless financial management is that it over emphasizes the place of money in the family economy. The thriftless are perpetually absorbed with money problems; bickerings over bills between husbands and wives; with attempts on the part of bread winners to temporize with collectors; and with the torment that comes from a deep seated consciousness that the home one

has built for his family is merely a house of cards."

The author then compares the economic management of the household with that of a bookie at the race track. The latter keeps two columns of figures: "One marked "take," which represents the income, and the other "paid," which represents outlays. The bookie's solvency depends on taking in more than he pays out." The conclusion is that a business enterprise, or a household, must take in more than it pays out; and this is where the theme of the book comes to the forefront, namely investments.

Finally, on the subject of spending versus saving, the advantage of compound interest should not be overlooked. If a younger person saves a dollar for his old age, instead of spending it upon "immediate gratification of a passing impulse, the wastrel takes up not one dollar, but perhaps six, for the saved dollar has within itself the capacity of repeated duplication."

In the days before social security, and the welfare appropriations, Mr. Rukeyser could write "if it were true that the world owed each of us a living, there would be no need of individual thrift. But, whether the world owes us a living or not, experience shows that no one will cash the claims of the improvident to a living. The prudent man knows that life is subject to external flux, as a famous Greek philosopher remarked long ago."

Also, in the days before the "three martini lunches", the man who is building up his good will by lavishly dispensing "\$100 bills to hostesses at night clubs, is really looked down upon by his associates."

After the discussion of spending versus saving, the author begins his treatment of fields of investment, with an extensive (relatively) discussion of widely owned railroad security investments. It is at this point that Mr. Rukeyser starts to comment on accounting related subjects. He seems to conclude that railroad securities have an advantage because they must be "revealed in accordance with standardized accounting practice". They are not "subject to irregularity, tardiness, and lack of standardization, as are the reports of unregulated industrials. Frequently, industrial corporations deliberately hide earnings and assets." At the same time, "railroads must submit monthly reports on earnings and expenses." It was of course several years later before industrial companies began the regular practice of reporting on a quarterly (at least) basis.

At a later place in the same chapter the author has three paragraphs on "accounting methods of industrials". He concluded that "the most conservative industrial concerns write off intangible assets to the sum of \$1." As contrasted with the General Electric Company, "whose good will and patents are unquestionably of enormous worth, and which are carried at a dollar on the balance sheet, numerous promotion companies whose good will is zero and whose patents are purely of a conjectural value, frequently set these up on the balance sheet at a high figure." In the opinion of Mr. Rukeyser, "enterprises that pursue satisfactory accounting methods set up large reserves against depreciation and obsolescence."

In another section of the same chapter, the author makes reference to the New York Stock Exchange as an outside influence in getting the companies to publish at least once a year a balance sheet and an income account. This was of course accomplished a few years later. Mr. Rukeyser paid tribute to the late E. H. Gary who had been chairman of the United States Steel Corporation. Mr. Gary was described as "a pioneer in the advocacy and practice of more enlightened accounting methods." Moreover, "Mr. Gary made it a practice to give out earnings statements at 3 o'clock on given days, after the Stock Market has closed, and he withheld advance information from directors and other insiders, putting all stock holders on a parity in respect to the time of receiving data concerning the progress of the corporation." But in general, the overall view and appraisal of Mr. Rukeyser was that "industrial corporations are still in the realm of accounting anarchy and are, for the most part, limited only by the conscience of management. Many of the very best industrial corporations go to extremes in accounting conservatism and deliberately hide earnings and assets from stockholders."

In the light of the tens of thousands of pages that have been written on the oil businesses in recent decades, the comments of Mr. Rukeyser on investments in oil companies have some curiosity interest. A half a century ago it could be written that "many a man of small means, with a vast amount of hope, has expected to find in oil stocks the vehicle that would bring him the wealth of John D. Rockefeller. Oil production is still primitive in character, even though it is undergoing important changes of method. In the present state of the art, there is a good deal of uncertainty as to how long

such production will continue, and as to whether there is any oil in unproved wells. Moreover, there are numerous economic hazards, such as whether prevailing prices will enable companies to produce oil and sell it at a profit. The large oil companies have for years relied on wild cat methods to find new fields."

In a chapter on "Changing Value of Investments" the author comes to the conclusion that "even the best financial statements are statements of opinion rather than purely objective documents. In the last analysis, they represent the opinion of the directors. Their value is only relative, or comparative."

On the subject of "adequate depreciation allowance" Mr. Rukeyser urges that "a depreciation fund should be set up out of earnings to allow for the wastage. If the depreciation fund is significantly larger than the actual declining value of property, it may be carried on the liability side and really represent accumulation of net profits that the corporation, in the last analysis, owes to its own stockholders. Sometimes the item is found both on the asset side and on the liability side. When it appears exclusively on the liability side, the depreciation fund usually is composed of general assets." Following the chapter on changing value, the subject of "internal factors" is treated at length. Under this topic, an appraisal of what constitutes good management arises. The accounting implication of this is found in the sentence: "The thoughtful student, however, will look behind profit statements to ascertain whether the company has been conservative in making charges against profits and in setting up reserves against invisible foes or future profits." As a prelude to the labor difficulties of the mid 1930s, "good management signifies an ability to maintain cordial relationship with employees."

In light of the crisis situation which began in the fall of 1929, Mr. Rukeyser felt that it was necessary to discuss "methods of successful investors" in a rather long chapter. He quotes the investment philosophy of the chief executive of one of the large insurance companies to the effect that the "practice of undervaluing our securities is now a permanent feature of our investment policy." The executive looked forward "to the time in the not distant future when we will have an undisclosed margin so vast that even the present large figure will appear comparatively small."

In a down-to-the-earth chapter on "Wall Street Merchandising" there is a sub-section ten on "Juggling the Balance

Sheet". Here, we find some of the most significant appraisals of 1930 accounting matters, such as "some corporation officials deceive by padding earnings statements, that is, by carrying assets, such as inventory, at too high a figure on the balance sheet, thus giving an exaggerated notion of the alleged profits. On the other hand, some of the strongest and best companies listed give stockholders the wrong impression by understating assets and earnings. The question may be raised whether it makes much difference to the outside stockholder whether he is deceived by exaggeration or by understatement. Padding balance sheets and income accounts has been generally denounced, but the reverse process of withholding facts regarding the true nature of profits and assets has been condoned as conservative accounting. Where a company habitually hides assets and earnings, it opens itself to the suspicion that it is intentionally giving an advantage to directors, officers, and bankers who alone are privy to the secret."

Mr. Rukeyser condemns inadequacies in 1929 and 1930 corporate accounting: "As long as certain corporate balance sheets and income accounts are travesties on revealing accounts, there will be mystery markets. When a company is telling only half a truth about earnings, outsiders in times of optimism might assume that the authentic facts are four times as favorable as the published ones. Likewise, in bad periods, they might assume that the facts are twice as black as they really are. In times of panic, companies that have hitherto hid assets and earnings have shown an informal tendency in statements by officers to disclose a little more of the true position." He then discusses two named specific company examples and draws the foreboding conclusion that "unless corporations volunteer to improve their practices, the demands for legislation to enforce accounting standards on industrial corporations seems inevitable."

In presenting "the test of adequate financial information," Mr. Rukeyser quotes one of the editors of a then prominent financial magazine to the effect that "it would be a good thing if every director and executive of a successful corporation would put himself in the place of the average stockholder and ask himself the question: would I hold as much of the stock as I do were my information limited to what is contained in the annual or other report?"

The banking community then comes in for a bit of comment with the summary statement that "banks themselves are notorious offenders in the matter of hiding assets and earnings. They habitually write off large amounts as reserves against bad loans, without setting forth clearly what their practice is." But banks are not alone in such a practice: "Industrial corporations sometimes hide the ebb and flow of profit by setting up reserves against contingencies in good years, and by using them up in bad years." However, sophisticated stockholders can get the "true picture" by deducting the depleted "reserves from the reported net profit". Earnings may be hid in other ways described by Mr. Rukeyser and he cites one of the then (and now) major merchandising firms for not distinguishing clearly between operating expenses and capital expenditures.

After mentioning other cautions such as nonuniformity in depreciation charges, Mr. Rukeyser concludes his admonitions to investors and speculators with the point that "these and other subtle subsurface distinctions help explain current anomalies in market prices of shares. Some buyers have confidence in figures put out by one group and lack confidence in those published by others. The fact that many published statements are used to conceal authentic conditions rather than to reveal them helps to explain why Wall Street security buying has become metaphysical rather than scientific."

As a forecaster, Mr. Rukeyser would receive good marks in his predictions that "the ownership of American corporations will become more widely diffused, and therefore there is an increasing moral obligation on the part of corporate executives to publish better financial reports that will tend to put outsiders on a parity with insiders in respect to the changing facts about a company's condition. And, such information should be published promptly."

If one thinks about the present state of financial reporting in the United States, and compares it with the comments and conclusions of the popular writer Mr. Rukeyser of a half century ago, one may conclude that progress is indeed evident during the five decades, but he or she might well remain ambivalent as to the extent of the progress.



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